

**DEVELOPING A THOUGHTFUL
AND
EFFECTIVE BUSINESS PLAN**

Kentucky Cabinet for Economic Development
Small and Minority Business Division
67 Wilkinson Boulevard
Frankfort, Kentucky 40601

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INTRODUCTION

Starting a new business from scratch is the most difficult way to begin, especially if you are not thoroughly familiar with all aspects of the business. Even if you are, the details can be almost overwhelming. If you are determined to start your own business from scratch, you must be certain that a genuine business opportunity does exist. Once your idea has been justified as a genuine business opportunity, you can concentrate on getting your idea off the ground.

An essential step in getting your idea off the ground is preparing a business plan. The business plan will enable you to anticipate the opportunities, costs, difficulties and requirements of deciding to go into business, establishing the business and operating the business.

In essence, the business plan will force you to build your proposed business on paper first. The business plan is a vital tool; its preparation will force you to think about what you must do and how to do it. To your creditors and investors, it will help them decide whether to finance your proposed business.

To prepare the business plan, you must pursue facts untiringly. The business plan will stand or fall on the completeness of your fact finding. In particular, you must dig out the facts that will bear on your production and marketing, organization and legal aspects.

There is no single best way to begin. What follows is simply a guide and can be changed to suit your needs. This presentation suggests to you the steps that you may take to prepare a business plan.

It is apparent from this presentation that certain key steps cannot be taken until earlier steps are completed. For example, you cannot research your market (Step 4), unless you first choose a product or service (Step 3).

You should keep complete notes, document all facts, back all assumptions and give authority for all opinions; otherwise, you may lack credibility with investors and creditors. Following the steps outlined in this presentation is important. When you have finished the process, you should have a complete coherent document, which serves your needs and the needs of others that may require information about your proposed business venture.

SUGGESTIONS
FOR
PREPARING A THOUGHTFUL AND EFFECTIVE BUSINESS PLAN

STEP 1: Deciding to go into Business

The decision to go into business requires a definite commitment from you that you will do whatever is necessary to make the business a success.

STEP 2: Analyzing Oneself

Analysis of personal strengths and weaknesses requires little fact finding. You may simply sit down and list your strengths, paying special attention to your business experience and education. On another sheet of paper, list your weaknesses. Next, you should analyze your readiness to start your own business.

When analyzing your strengths and weaknesses, you should be honest with yourself. It is often hard for you to see your own shortcomings.

STEP 3: Choosing a Product or Service

This is a critical step. As a rule, it is foolish for you to choose a product or service you know little about. A bad choice will severely weaken your chance of success. It is possible you might learn from your mistakes, but that could be costly. Still, some entrepreneurs do go into an entirely unfamiliar field and succeed. The general rule, however, is for you to pick a product or service you:

1. Know intimately because you have worked with it for years.
2. Are convinced will grow at a rate faster than that of the economy as a whole.
3. Can get excited about.

STEP 4: Researching the Market

Research is perhaps the most critical step of all. You should spare no expense in your quest for facts. The more you know about your market, the greater your chance of creating customers at a profit.

Too often, entrepreneurs do a poor job in this vital area. Tending to rely on hearsay instead of facts and thus lacking even the foggiest idea of how best to reach the customer. Many new ventures fizzle

into oblivion because entrepreneurs fail to get the basic information they need to move products out of their hands and into those of customers.

To get information, you should begin by looking for research material at your local public library or the business library of colleges and other institutions, such as the Chamber of Commerce. Some public libraries provide special services for businesses. Many offer a reference service to track down elusive facts, a referral service to guide you to outside sources of information, interlibrary loan programs and photocopying services.

The Chamber of Commerce can tell you what facts are available, either at hand or buried in government statistics. Trade associations are equally fruitful sources; they offer mountains of information, often at no cost. Virtually every industry has such an association.

After collecting facts already unearthed by others, you should then leave your desk and do some fact finding on your own. The Kentucky Cabinet for Economic Development's Resource Library, phone (502) 564-7140, contains 12,000 volumes and 250 periodicals, all pertaining to and/or providing supportive data for economic development.

STEP 5: Forecasting Sales Revenues

After estimating the market potential for your selected business, you should next estimate what share of that market you can reasonably expect to gain. You must do so by making realistic assumptions that take into account the number and size of competitors and the amount of time it will take to achieve your goals. You then need to express your expected market share in terms of sales revenues. A good rule of thumb is to estimate sales revenues over a three-year period broken down as follows:

1. First year-- monthly
2. Second year -- quarterly
3. Third year -- yearly

These revenue figures are key estimates because they are the basis for almost all other figure estimates that you must make. It is vital, therefore, that revenues be estimated in a realistic way and not picked out of the air.

STEP 6: Choosing a Site

You should have some idea, from the very start, of where best to locate your business. However, all arrangements and conditions for leasing should be based upon your ability to obtain suitable financing.

The most practical arrangement appears to be to lease the premises on a reasonably short-term basis with the option to renew or purchase in the future.

Remember you may be legally bound to pay the expired portion of the lease in the event of a business failure.

The purchase of a building and its land only makes sense if: a.) the purchase is a good investment in its own right and b.) you have sufficient funds to cover your start-up expenses.

STEP 7: Developing a Production Plan

The need for a production plan applies only if you intend to manufacture a product. Neither wholesaling, retailing, nor services generally call for a production plan. In preparing such a plan, perhaps the most critical question you should answer is: How big should my plant be? The estimate should be in volume of product per year and should flow logically from the revenue forecast. General practice is to use the third-year forecast to size a plant.

After estimating size, you should next lay out your production process. A flow diagram showing how raw materials would enter the plant, how these materials would change into products, and how products would leave the plant is an especially helpful look in the planning process.

You must also determine the type and size of the equipment needed for the production process. Each piece of equipment should be sized in a way that keeps the process free of bottlenecks. Equipment suppliers generally can offer expert advice on how to go about selecting and sizing equipment.

Last you should lay out your plans to control the waste, quality and inventory of your product.

STEP 8: Developing a Market Plan

This step forces you to spell out in detail how you plan to create customers at a profit. If, in Step 4, you painstakingly dug out the facts about your markets, then the marketing plan is likely to be creative; if not, it is likely to be fallow.

STEP 9: Developing an Organizational Plan

You should now assemble, at least on paper, the team you need for your new venture. First, you should spell out:

1. What needs to be done to carry out your marketing and production plans.
2. Who reports to whom.
3. What qualifications are required for above-average performance of each job.

Having analyzed and described your needs, you may prepare an organizational chart defining who does what and who reports to whom.

STEP 10: Developing a Legal Plan

This step takes you into the legal arena. Here, you must decide whether to go it alone as a sole proprietor, share your venture with one or more partners, or incorporate. Each choice has its advantages and disadvantages. Which one is best hinges on a host of issues--among them, personal preference, taxes and personal wealth.

At the first opportunity, you should see an attorney for advice. The attorney should be someone who is an expert in new ventures preferably with experience in your industry.

STEP 11: Developing an Accounting Plan

From the start, you must keep records in order to show how well your venture is doing and in what direction it is moving. So it behooves you to have an accountant design a record-keeping system before, and not after, starting a new venture.

STEP 12: Developing an Insurance Plan

Entrepreneurs must protect themselves and their venture from any unforeseen events that may threaten their very survival--such as fire and theft.

To make sure that the risk-management program is tailored to the needs of your venture, you should seek the help of an insurance agent and perhaps the help of an attorney as well.

STEP 13: Developing a Financial Plan

A financial plan ties together all the preceding steps by translating production, marketing and organizational plans into dollars. In other words, the financial plan is a dollar expression of your operating plans.

Preparation of a financial plan is anything but easy and often frustrating to you if you lack financial knowledge. For help, you should turn to your accountant or banker or a Small Business Development Center (SBDC) in your area. To locate the nearest SBDC, call 1-800-626-2930 and ask to speak to someone in the Small and Minority Business Division or go to the SBDC's web site www.ksbdc.com.

STEP 14: Writing a Cover Letter

Though not really part of the business plan, the cover letter nonetheless plays a vital role. It is a selling tool, addressed mostly to investors and creditors. In the letter, you summarize the plan in just a few words, giving special attention to its purpose and promises.

Source: Nicholas C. Siropolis, Small Business Management - A Guide to Entrepreneurship 2nd ed. (Boston: Houghton Mifflin Company, 1982), 137-151.

SECTION 1

BUSINESS PLAN QUESTIONNAIRE

The purpose of this section is to encourage you to seriously address certain issues as they relate to your business. Before you can adequately respond to some of the questions, it may be necessary for you to do intense research to justify your answers. Depending on the nature of your business, some of the questions may not be applicable. However, all questions should be given due consideration. Therefore, questions, both factual and theoretical, should be answered insightfully and correctly.

To record the answer to the applicable questions for your business, you can utilize the work sheets that are included in Section 2.

BUSINESS PLAN QUESTIONNAIRE

A. DESCRIPTION OF BUSINESS

1. Why do you want to start or expand your own business?
2. What exactly is your product or service? Be specific.
3. Have you filed a trade or assumed name for your business with the Secretary of State's office?
4. Are you aware of any special licenses, permits, patents, copyrights, etc. that you will need to operate legally within the state?
5. What legal form have you chosen for your business (sole proprietorship, partnership, corporation, limited partnership, etc.)?
6. What are the advantages and disadvantages of the legal form you have chosen?
7. Have you talked to owners in this kind of business? What was the response?
8. Have you consulted with a business counselor, attorney, banker, and/or accountant about what the opportunities in your chosen product/business are? If so, what was their response?
9. Why is your business going to be profitable?
10. What is unique or different about your business?
11. Will you manage the company internally or will you employ others to do so? What is the availability of management personnel?
12. What experience have you acquired that could be applied to your own business?
13. Have you spoken with prospective trade suppliers to find out what managerial and/or technical help they will provide?
14. Do you have letters of intent for prospective suppliers of purchases?
15. If you will be doing contract work, what are the terms? Reference any firm contract and include it as a supporting document.
16. When will (did) your business open?

17. What hours of the day and days of the week will you be in operation? What days will you be closed, including holidays?
18. If your business is seasonal, will the hours be adjusted seasonally? Make sure that the seasonality is reflected in your replies to the previous question.
19. What do you expect to achieve from the business?
20. Are you aware of why some small businesses fail? If so, what are some key reasons?

B. THE MARKET

The basic marketing questions are:

1. Who are your potential customers? Describe characteristics: age, sex, profession, income, etc., of your various market segments.
2. What types of products and/or services will your company provide?
3. Have you determined the extent of need for the product or services in your market arena? What market do you intend to service, the size of the market, what percent of the market will you have?
4. Where geographically are your customers concentrated?
5. How will you gather information about your market? Be specific.
6. Name at least three strategies you will use to make the public aware of your services. Describe the type of marketing techniques that you will use to promote the company's sales and business.
7. What techniques were used to determine sales potential of the company? Describe in detail how sales projections were reached and list all major assumptions--See B of PART 2.
8. What methods of advertising will bring your company the most visibility and why?
9. What is the market's growth potential? As the market grows, does your share increase or decrease? What will be needed to generate additional sales by the company?
10. How are you going to satisfy your market? How will you attract and keep this market?
11. What image would you like your company to portray?
12. In the future, what additional services or products will you provide to expand your market?
13. How are you going to price your service or product to make a fair profit, and at the same time, be competitive?
14. How did you arrive at the price you anticipate getting for your product or service? What price have you set?
15. What special advantages do you offer that may justify a higher price? (You do not necessarily have to engage in direct price competition.)

16. What are the national and local trends that will affect the growth of your business choice? Be specific.
17. What will be some of your customer service policies?
18. Will you offer credit to your customers (accounts receivable)? If so, is this necessary? Can you afford to extend credit? Can you afford bad debts?

C. LOCATION

In this section of your business plan, you should consider the following:

1. What is, or will be your business address?
2. Why did you choose this site? Have you considered other areas? Why is this the right building and location for your business? Is it accessible for delivery and shipping?
3. How will your building contribute to your marketing strategy? What will your building layout feature? Is there potential for expansion?
4. Describe the advantages and/or disadvantages of the business location in terms of labor availability, proximity to customers, suppliers, and access to transportation, etc.
5. What are the population characteristics of, or around your location site? (You may consider ethnic, religious, income, age, vocational, etc.)
6. What is the neighborhood like? (Stable, changing, improving, deteriorating?)
7. Are you aware of zoning regulations of the area? Does the zoning permit your kind of business? Are there other special permits or licenses you may need?
8. What kinds of businesses are in the area?
9. Is there a need for new small business growth in your community?
10. Will you lease or purchase a building? If so, at what terms and why?
11. If special features or renovations are needed, what are they? What is the expected cost? Get quotes in WRITING from more than one contractor. Include quotes as supporting documents.
12. How does your location affect your operating costs?
13. Is parking available? (Paid or free; lot or meter?)
14. Is the business located close to major highways and public transportation systems?
15. Is it necessary that you be located in or near a business district for your business to be successful?
16. Is there adequate fire and police protection?
17. Will crime and liability insurance be needed?

D. THE COMPETITION

1. What is the competition like in the area you have chosen to locate in?
 - a. What is the number of firms that handle your service?
 - b. Does the area appear to be saturated?
 - c. How many of these firms look prosperous?
 - d. Do they have any apparent advantages over you?
 - e. How many look as though they are barely getting by?
 - f. How many similar services went out of business in this area last year?
 - g. Can you find out why they failed?
 - h. How many new services opened up in the last year?
 - i. How much do your competitors charge for your service?
2. Who are your five nearest competitors?
3. How will your operation be better than theirs?
4. How is their business? Steady? Increasing? Decreasing? Why?
5. What are their strengths and/or weaknesses? How are their operations similar and dissimilar to yours?
6. What have you learned from watching their operations?

E. THE MANAGEMENT

In preparing the Management section, there are five areas to be covered:

1. Personal history of owners
2. Related work experience
3. Duties and responsibilities
4. Salaries
5. Resources available to the business

Properly treated, these five areas will help make a proposal more convincing and a business plan far more useful than could otherwise be the case. The aim is to spot areas of potential weakness before problems caused by them arise and put you out of business.

1. Personal History of Owners

This segment should include responses to the following:

- a. What is your business background?
- b. What management experience have you had?
- c. What education have you had (including both formal and informal learning experiences) which have a bearing on your managerial abilities?
- d. Managing and owning a business requires one to make sacrifices. It can be confining in terms of the hours required, lack of paid vacation and benefits, etc. Yet it can be a personally and financially rewarding experience. Do you have the determination and stamina demanded to meet these challenges?
- e. Personal data: age; where you live and have lived; special abilities and interests; reasons for going into business.
- f. Why are you going to be successful at this venture?
- g. A personal financial statement must be included as a supporting document in your business plan if it is a proposal for financing. Also, include your resume` as a supporting document.

2. Related Work Experience

This segment is a detailed response to the experience factor mentioned earlier. It includes, but is not limited to, responses to the following:

- a. Direct operational experience in this type of business.

b. Managerial experience in this type of business.

- c. Managerial experience acquired elsewhere - whether in totally different kinds of businesses, or as an offshoot of club or team membership, civic activities, church work or some other.

3. Duties and Responsibilities

- a. Who does what?
- b. Who reports to whom?
- c. Where are the final decisions made?

Include: Major operating duties (purchasing, sales, personnel, promotion, production, and so forth as appropriate for your business). Prepare an organizational chart that reflects how work is delegated and the line of responsibility and authority.

Operational planning (company goals and the activities undertaken to achieve them).

4. Salaries

A simple statement of what the management will be paid is sufficient.

5. Resources Available to the Business

- a. An accountant
- b. An attorney
- c. An insurance broker

If you do not have these resources, get them immediately!

F. PERSONNEL

1. What are your personnel needs now? In the near future? In five years?
2. What skills must they have?
3. Are the people you need available?
4. Full or part-time?
5. Salaries or hourly wages?
6. Fringe benefits? If so, what? Have you calculated the cost of these fringe benefits?
7. Will you have to train people? If so, at what cost to the business? Be careful--training personnel can be a hidden cost that you had not counted on.
8. Will you utilize overtime? Are you aware of regulations concerning overtime?

G. FINANCIAL ANALYSIS

1. Will you need a loan to start or expand the company? If so, approximately how much?
2. What will the loan be used for? (Working capital, new equipment, inventory, supplies.)
3. What sources will you use to obtain the loan? (Bank, credit union, state, city, etc.)
4. What items will be purchased and at what cost(s)? What is the specific model, name and/or number of your purchase(s)?
5. Who will be supplying these items?
6. How much did you (will you) pay in sales tax, installation charges and/or freight fees?
7. Do you have a personal, savings, checking, or business account with a local bank? If so, which one, and who is your banker?
8. Have you approached them about your loan requests? What was their response?
9. Do you own any assets or items of value? If so, what?
10. Would you be willing to use your personal assets as collateral against a loan to provide your company with a stable equity base?
11. Have you prepared a projected Profit and Loss Statement showing the potential revenues versus expenses of your company during your first three years of operation?
12. Will you need assistance in preparing such statements?
13. Can you provide personal tax returns for the past three years?
14. How will a loan make your business more profitable?

* Any questions you may have concerning the content of this questionnaire should be directed to:

The Kentucky Cabinet for Economic Development
Division of Small and Minority Business
67 Wilkinson Boulevard
Frankfort, Kentucky 40601
Phone: 502-564-2064
800-626-2930

SECTION 2

WORKSHEETS FOR BUSINESS PLAN

Your business plan will help you determine the skills needed to establish your own small business, to survive, and to grow. Keep in mind you must do the actual planning. You can hire someone to work in your business, but you cannot hire someone to do the planning. The plan for your business venture must be based on your ideas and assumptions. You must be aware and knowledgeable about everything that pertains to your business venture.

When the worksheets in this section are completed, you will have a detailed business plan for your proposed business.

If you lack the necessary skills to complete the planning process, seek professional assistance. It is always advisable to seek professional one-on-one counseling before acting on your final decision. Therefore, we suggest that you contact the nearest Small Business Development Center (SBDC) for an appointment to critique your business plan.

To locate the SBDC serving your area, go to www.ksbdc.com.

BUSINESS PLAN OUTLINE

COVER SHEET

STATEMENT OF PURPOSE

PART 1 THE BUSINESS

- A. Description of the Business
- B. The Market
- C. Location of the Business
- D. Competition
- E. Management
- F. Personnel
- G. Application and Expected Effect of Loan or Investment
- H. Summary

PART 2 FINANCIAL DATA

- A. Statement of Financial Requirements
- B. Annual Projected Income Statement
- C. First-Year Cash Flow Projection
- D. Monthly Projected Income Statement
- E. Monthly Cash Flow Projection
- F. First-Year Break-Even Analysis

PART 3 SUPPORTING DOCUMENTS

- Attachment - A Resume`
- Attachment - B Personal Financial Statement

Suggested Attachments to be added:

- Job Descriptions
- Letters of References
- Letters of Intent
- Copies of Leases
- Contracts
- Legal Documents
- Anything of Relevance to the Proposed Business

Date: _____

OWNER OR CONTACT PERSON

Name: _____

Street Address: _____

City: _____ State: _____ Zip Code: _____

Telephone: _____ Social Security Number: _____

PROPOSED BUSINESS INFORMATION

Name of Proposed Business: _____

Street Address: _____

City: _____ State: _____ Zip Code: _____

County: _____

Type of Proposed Business:

_____ Manufacturing _____ Construction _____ Concession

_____ Non-Professional Service _____ Professional Service _____ Retail Sales

_____ Other (Explain)

Date to be Established: _____

Proposed Legal Structure:

_____ Proprietorship _____ Partnership _____ Corporation _____ Other (Explain)

Proposed Number of Employees: _____

Projected Annual Sales:

20 _____ \$ _____

20 _____ \$ _____

20_____

\$_____

STATEMENT OF PURPOSE

[illegible]

PART 1

THE BUSINESS

A. DESCRIPTION OF THE BUSINESS

[illegible]

B. THE MARKET

[illegible]

C. LOCATION OF THE BUSINESS

[illegible]

D. COMPETITION

[illegible]

E. MANAGEMENT

[illegible]

F. PERSONNEL

[illegible]

G. APPLICATION AND EXPECTED EFFECT OF LOAN OR INVESTMENT

[illegible]

H. SUMMARY

[illegible]

PART 2

FINANCIAL DATA

A. STATEMENT OF FINANCIAL REQUIREMENTS

ITEM	FUNDS REQUIRED	SOURCE(S) OF FUNDS	
	Total	Your Investment	To Be Financed*
FIXED ASSETS			
Automotive Equipment	\$ _____	\$ _____	\$ _____
Machinery and Equipment	\$ _____	\$ _____	\$ _____
Fixtures and Furniture	\$ _____	\$ _____	\$ _____
Real Estate	\$ _____	\$ _____	\$ _____
Leasehold Improvements	\$ _____	\$ _____	\$ _____
Other (Organizational Expenses)	\$ _____	\$ _____	\$ _____
Sub-Total	\$ _____	\$ _____	\$ _____
PREPAID ITEMS AND DEPOSITS			
Rent Deposit	\$ _____	\$ _____	\$ _____
Utilities Deposit	\$ _____	\$ _____	\$ _____
Insurance	\$ _____	\$ _____	\$ _____
Taxes, License and Fees	\$ _____	\$ _____	\$ _____
Telephone Deposit	\$ _____	\$ _____	\$ _____
Other	\$ _____	\$ _____	\$ _____
Sub-Total	\$ _____	\$ _____	\$ _____
PRE-OPENING EXPENSES			
Advertising and Promotion	\$ _____	\$ _____	\$ _____
Training	\$ _____	\$ _____	\$ _____
Other	\$ _____	\$ _____	\$ _____
Sub-Total	\$ _____	\$ _____	\$ _____
INVENTORY AND SUPPLIES	\$ _____	\$ _____	\$ _____
WORKING CAPITAL	\$ _____	\$ _____	\$ _____
OTHER	\$ _____	\$ _____	\$ _____
TOTAL	\$ _____	\$ _____	\$ _____

*Source(s) of Financing _____

NOTES

B. ANNUAL PROJECTED INCOME STATEMENT

Name of Business: _____

_____ to _____
(Date) (Date)

Sales		\$ _____
Beginning Inventory	\$ _____	
Inventory Purchased	_____	
Total Goods Available For Sale	_____	
Less: Ending Inventory	_____	
Cost of Goods Sold		\$ _____
Gross Profit		\$ _____
Less: Operating Expenses	\$ _____	
Rent	_____	
Depreciation	_____	
Repairs	_____	
Salaries and Wages	_____	
Payroll Taxes and Fringe Benefits	_____	
Taxes, Licenses, Fees	_____	
Insurance	_____	
Legal and Accounting Fees	_____	
Bad Debts	_____	
Telephone	_____	
Utilities	_____	
Supplies	_____	
Security	_____	
Advertising and Promotion	_____	
Interest	_____	
Postage and Freight	_____	
Travel	_____	
Dues and Subscriptions	_____	
Bank Service Charge (credit cards)	_____	
Other Credit Card Fees	_____	
Miscellaneous (fixed and variable)	_____	
Total Expenses		\$ _____
Net Profit Before Taxes		\$ _____
Federal Income Taxes (corporation only)	\$ _____	
Net Profit		\$ _____

NOTES

C. FIRST-YEAR CASH FLOW PROJECTION

Name of Business: _____

Net Profit	\$ _____	
Plus Depreciation	_____	
Cash Generated		\$ _____
Loan Principal Payment	\$ _____	
Other	_____	
Total Loan Principal Payment		\$ _____
Net Cash Flow		\$ _____

NOTES

D. MONTHLY PROJECTED INCOME STATEMENT
For First Year of Business Operation

Name of Business: _____

_____ to _____
(Date) (Date)

	PERCENTAGE OF SALES	(1)	(2)	(3)	(4)
Sales					
Cost of Goods Sold					
Gross Profit					
Operating Expenses					
Variable Expenses					
Bank Service Charge					
Other Credit Card Fees					
Postage and Freight					
Salaries and Wages					
Payroll Taxes and Fringe Benefits					
Travel					
Utilities					
Advertising and Promotion					
Supplies					
Bad Debts					
Repairs					
Security					
Dues and Subscriptions					
Rent*					
Legal and Accounting Fees					
Miscellaneous					
Subtotal, Variable Expenses					
Fixed Expenses					
Taxes, Licenses, Fees					
Insurance					
Telephone					
Depreciation					
Interest					
Loan Principal Payment					
Miscellaneous					
Subtotal, Fixed Expenses					
Total Operating Expenses					

Net Profit (Loss) Before Taxes					
Federal Income Taxes (Corporation Only)					
Net Profit					

*Include rent as a fixed expense if it is charged as a straight monthly amount.

NOTES

Monthly Projected Income Statement
Page 2[illegible]

NOTES

E. MONTHLY CASH FLOW PROJECTION

Name of Business: _____

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	TOTALS
Net Profit													
Plus Depreciation													
Cash Generated													
Less: Loan Principal Payments													
Net Cash Flow													

F. FIRST-YEAR BREAK-EVEN ANALYSIS

Name of Business: _____

1. Total dollar amount of fixed expenses (from monthly income statement):

\$ _____

2. Total percentage for variable expenses (from monthly income statement):

_____ %

3. $BP = FE \div (S - VE)$

NOTES

PART 3

SUPPORTING DOCUMENTS

ATTACHEMENT - A

RESUME

FOR

PERSONAL DATA

Social Security Number _____ Date of Birth _____

Place of Birth _____

Present Address _____ From _____

To _____

Prior Address _____ From _____

To _____

Phone Number _____ Marital Status _____

Spouse's Name (Full) _____ Spouse's S.S. No. _____

Number of dependents Including Spouse and Self _____

Health Condition (Applicant) Good _____ Fair _____ Poor _____
(Explain if Fair or Poor)

EDUCATIONAL BACKGROUND

MILITARY SERVICE

Veteran: Yes _____ No _____ Years _____ From _____ To _____

Type of Discharge: _____

BACKGROUND OR EXPERIENCE

(Describe experience in type of business you operate or propose to operate.)

This image shows a blank sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

ATTACHMENT - B

PERSONAL AND FAMILY FINANCIAL STATEMENT

NAME: _____

SOCIAL SECURITY NUMBER: _____

ASSETS

Cash On Hand and In Banks \$ _____

Savings Account(s) _____

U.S. Government Bonds _____

Accounts and Notes Receivable _____

Life Insurance (Cash Surrender Value) _____

Other Stocks and Bonds (Retirement) _____

Real Estate (Current Value) _____

Automobile (Current Value) _____

Other Personal Property (Current Value) _____

Other Assets (Current Value) _____

TOTAL ASSETS \$ _____

LIABILITIES

Accounts Payable \$ _____

Notes Payable To Bank _____

Notes Payable To Others _____

Installment Accounts _____

Loans On Life Insurance _____

Mortgage On Real Estate _____

Unpaid Taxes _____

Other Liabilities _____

TOTAL LIABILITIES \$ _____

NET WORTH \$ _____

LIFE INSURANCE HELD

Company and Policy Type

Cash Surrender Value

\$

\$

\$

Beneficiary

Personal and Family Financial Statement
Page 2

PERSONAL OBLIGATIONS

Bank or Other Credit Institution	Original Balance	Present Balance	Payments Per Month	Maturity Date
_____	\$ _____	\$ _____	\$ _____	\$ _____
_____	\$ _____	\$ _____	\$ _____	\$ _____
_____	\$ _____	\$ _____	\$ _____	\$ _____
_____	\$ _____	\$ _____	\$ _____	\$ _____

STOCKS

	Cost	Market Value
_____	\$ _____	\$ _____
_____	\$ _____	\$ _____

REAL ESTATE OWNED

Title In The Name Of: _____

Original Cost To Me: \$ _____ Date Purchased: _____

Property (Dwelling Type): _____

Present Market Value: \$ _____

Tax Assessment Value: \$ _____ Rate of Mortgage: _____

Original Mortgage Amount: \$ _____ Balance: \$ _____

Maturity Date: _____

Terms of payment: \$ _____ Per _____

Name and Address of Mortgage Holder: _____

ESTIMATED MONTHLY AND ANNUAL INCOME

	Monthly	Annual
Salary	\$ _____	\$ _____
Net Investment Income	\$ _____	\$ _____

Real Estate Income	\$ _____	\$ _____
Other Income		
(From Other Family Members)	\$ _____	\$ _____
TOTAL INCOME	\$ _____	\$ _____

NOTES

SUPPLEMENT
TO
DEVELOPING A THOUGHTFUL
AND
EFFECTIVE BUSINESS PLAN

To Be Used By An Existing Business Seeking A Loan

Kentucky Cabinet for Economic Development
Small and Minority Business Division
67 Wilkinson Boulevard
Frankfort, Kentucky 40601

This compilation has been researched and prepared by Norris Christian, Director, Small and Minority Business Division. The cost of printing has been paid for by state funds.

Revised June 2000

COMMENTS

This information and illustration is designed to assist you, *an existing business*, in the preparation of your business plan to obtain a loan for the expansion of your company.

The Pro-Forma and Comparative Balance Sheet is intended to replace page 1 (A. Statement of Financial Requirements) in Part 2 - Financial Data of *Developing A Thoughtful and Effective Business Plan*.

PREPARING THE PRO-FORMA AND COMPARATIVE BALANCE SHEET

As an existing business you should have a balance sheet. Your business already has assets, liabilities and a net worth (equity). To prepare a pro-forma balance sheet requires the use of funds plus your current balance sheet. Your current balance sheet is put side-by-side with the use of funds. With the loan proceeds, your business will buy new assets and may pay off debt. In most cases the loan proceeds will be used to furnish your business with cash (working capital) and purchase equipment, fixtures, and so on. To prepare a pro-forma balance sheet, take your existing balance sheet and add the *new assets* your business will purchase with the loan proceeds to the existing assets. It adds the *new loan* to existing liabilities. Present equity will be the same as the equity on the pro-forma.

The following exhibit shows how to prepare a pro-forma balance sheet.

Notice that the use of funds is added to the assets on the current balance sheet. Working capital is added to the existing cash and the cash on the pro-forma balance becomes \$55,000. YourCompany now has \$70,000 in inventory. With the loan proceeds YourCompany will buy \$60,000 more in inventory, so the pro-forma balance sheet shows \$130,000 in inventory. Similarly, YourCompany will buy \$35,000 in equipment to add to its present \$190,000 in equipment.

Each month YourCompany will make loan payments. These loan payments are made up of interest (an expense) and principal (the amount the loan is reduced by). The first year's principal loan repayment, therefore, represents the amount of the loan that will be paid in that year. This is called the "current portion" of the loan. The principal loan repayment in the example is \$24,460, so the current portion of the debt, which is now part of YourCompany's current liabilities, is \$24,460.

Since YourCompany is borrowing \$200,000 and \$24,460 will be paid the first year, the amount that is due after one year (the long-term portion of the debt) is \$175,540 (\$200,000 - \$24,460).

Note that the equity or net worth, which was \$224,364 on the previous balance sheet will *remain* \$224,364 on the pro-forma balance sheet. Since no new money was put into the business, the equity in the business remains the same.

Some of the money that YourCompany borrowed is to pay off a present loan of \$43,550 (\$6,350 current portion, plus \$37,200 long-term portion). The present debt of YourCompany will be paid off in full and the new debt of \$200,000 will be substituted (\$24,460 current portion and \$175,540 long-term). The new debt *replaces* the old debt; it is *not added* to the old debt. If

no money is borrowed to pay off debt, then current debt from the current balance sheet is *added* to the loan amount.

YourCompany

Pro-Forma and Comparative Balance Sheet

Current Balance Sheet		Use of Funds		Pro-Forma Balance Sheet	
Current assets:					
Cash	\$ 10,000	Working capital	\$45,000	\$ 55,000	Cash
Accounts receivable	115,164			115,164	Accounts receivable
Inventory	70,000	Inventory	60,000	130,000	Inventory
Deposits	<u>1,750</u>	Prepayments	1,450	<u>3,200</u>	Deposits
Total current assets	\$196,914			\$303,364	Total current
Fixed assets:					
Equipment	\$190,000	Equipment	35,000	\$225,000	Equipment
Office furniture	24,000	Furniture	5,000	29,000	Furniture
Improvements	26,000	Improvements	10,000	36,000	Improvements
Less: Accumulated depreciation	<u>(83,000)</u>	Loan less		<u>(83,000)</u>	Depreciation
Total fixed assets	<u>\$157,000</u>	debt repayment	\$156,450	\$207,000	Fixed assets
Total assets	<u>\$353,914</u>			<u>\$510,364</u>	Total assets
Current liabilities:					
Trade payable	\$ 86,000			\$ 86,000	Trade payable
Current portion - debt	<u>6,350*</u>	Pay off current and long-term debt	\$ 43,550	<u>24,460*</u>	Current - SBA
Total current liabilities	\$ 92,350			\$110,460	Total current
Long-term liabilities:					
Long-term debt	<u>37,200*</u>			<u>\$175,540*</u>	Long term - SBA
Total long-term liabilities	<u>\$ 37,200</u>	Debt payment portion of loan	\$ 43,550*	<u>\$175,540</u>	Total long-term
Total liabilities	<u>\$129,550</u>			<u>\$286,000</u>	Total liabilities
Equity	<u>\$224,364</u>			\$224,364	Equity
Total liabilities and equity	<u>\$353,914</u>			<u>\$510,364</u>	Total

*Part of the loan proceeds are used to reduce present debt.

Pro-Forma and Comparative Balance Sheet

The pro-forma balance sheet generally does not have any footnotes. The comparative and pro-forma balance sheet would be footnoted only if changes in historical data have to be made before the balance sheet is accurate (for instance, if loans payable is shown as \$20,000, but is in fact \$25,000).

WORKSHEET

YourCompany

Pro-Forma and Comparative Balance Sheet

Current Balance Sheet		Use of Funds		Pro-Forma Balance Sheet	
<hr/>					
Current assets:					
Cash	\$ _____	Working capital	\$ _____	\$ _____	Cash
Accounts receivable	_____			_____	Accounts receivable
Inventory	_____	Inventory	_____	_____	Inventory
Deposits	_____	Prepayments	_____	_____	Deposits
Total current assets	\$ _____			\$ _____	Total current
Fixed assets:					
Equipment	\$ _____	Equipment	_____	\$ _____	Equipment
Office furniture	_____	Furniture	_____	_____	Furniture
Improvements	_____	Improvements	_____	_____	Improvements
Less: Accumulated depreciation	(_____)	Loan less		(_____)	Depreciation
Total fixed assets	\$ _____	debt repayment	\$ _____	\$ _____	Fixed assets
Total assets	\$ _____			\$ _____	Total assets
Current liabilities:					
Trade payable	\$ _____			\$ _____	Trade payable
Current portion - debt	_____ *	Pay off current		_____ *	Current - SBA
Total current liabilities	\$ _____	and long-term debt	\$ _____	\$ _____	Total current
Long-term liabilities:					
Long-term debt	_____ *			\$ _____ *	Long-term - SBA
Total long-term liabilities	\$ _____	Debt payment		\$ _____	Total long-term
		portion of loan	\$ _____ *		Total liabilities
Total liabilities	\$ _____				
Equity	\$ _____			\$ _____	Equity
Total liabilities and equity	\$ _____			\$ _____	Total

*Part of the loan proceeds are used to reduce present debt.

Pro-Forma and Comparative Balance Sheet

The pro-forma balance sheet generally does not have any footnotes. The comparative and pro-forma balance sheet would be footnoted only if changes in historical data have to be made before the balance sheet is accurate (for instance, if loans payable is shown as \$20,000, but is in fact \$25,000).

